

NCA
VOC FOR IOP/FN
NEWS ANALYSIS 1-0623
JOHN ALBERT

APRIL 22, 1976

ANNCR: EAST EUROPE'S WESTERN TRADE PROBLEMS

THE TREMENDOUS GROWTH OF EAST EUROPEAN TRADE WITH THE WEST IN RECENT YEARS ALSO HAS HAD CONSIDERABLE EFFECTS ON ECONOMIC DEVELOPMENT IN EAST EUROPE. VOA NEWS ANALYST JOHN ALBERT HAS THESE OBSERVATIONS.

VOICE:

IN THE PAST, THE SOVIET UNION AND ITS EAST EUROPEAN ALLIES OFTEN CLAIMED THAT THEIR ECONOMY WAS UNAFFECTED BY THE PROBLEMS OF RECESSION AND INFLATION PLAGUING THE WEST. HOWEVER, THE SHARPLY INCREASED DEPENDENCE OF ALL OF EASTERN EUROPE, INCLUDING THE SOVIET UNION, ON THE IMPORT OF WESTERN TECHNOLOGY AND WESTERN RESOURCES FOR THE RAPID DEVELOPMENT OF THEIR ECONOMIC STRUCTURE HAS CHANGED ALL THAT.

THE PERIOD FROM 1971 TO 1975 SAW A VAST INCREASE IN THE AMOUNT OF WESTERN IMPORTS, FROM ABOUT SIXTEEN THOUSAND MILLION DOLLARS TO AN ESTIMATED FIFTY THOUSAND MILLION DOLLARS. EARLIER, THE OVERWHELMING PORTION OF EAST EUROPEAN TRADE REMAINED WITHIN THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE, OR COMECON, BUT BY 1974 THIS HAD RADICALLY CHANGED. THROUGHOUT 1974, WESTERN INFLATIONARY PRESSURES WERE ONLY PARTLY FELT IN EAST EUROPE BECAUSE SOVIET FUEL AND RAW MATERIALS STILL WERE BEING DELIVERED AT PRICES MUCH LOWER THAN THOSE ON THE WORLD MARKET. BUT BY EARLY 1975 THE COUNTRIES OF EASTERN EUROPE WERE HIT BY A NUMBER OF SIMULTANEOUS DEVELOPMENTS.

FIRST, THE SOVIET UNION GREATLY INCREASED ITS PRICES FOR OIL AND OTHER RAW MATERIALS, FORCING EASTERN EUROPE TO PAY MORE AND TO INCREASE EXPORTS TO THE SOVIET UNION AND DECREASE

THEM TO THE WEST. THEN THE WORLDWIDE RECESSION CUT DEMAND FOR EAST EUROPEAN PRODUCTS AND PRESSED DOWN THEIR PRICE. GROWING WESTERN INFLATION, ON THE OTHER HAND, RAISED THE PRICE OF WESTERN GOODS WHICH EAST EUROPE WAS IMPORTING.

THE RESULT WAS A MOUNTING HARD CURRENCY TRADE DEFICIT FOR ALL EAST EUROPEAN COUNTRIES AND A CUT BACK ON WESTERN IMPORTS. THIS RESTRICTION IN WESTERN CAPITAL GOODS IMPORTS IS BOUND TO SLOW DOWN OVERALL ECONOMIC DEVELOPMENT IN EASTERN EUROPE. FURTHERMORE, IT IS LIKELY THAT CONSUMPTION WILL HAVE TO BE RESTRICTED, AND, DESPITE INCREASED STATE SUBSIDIES, PRICE INCREASES IN THE DOMESTIC MARKET WILL BE UNAVOIDABLE. THE IMPACT ON INDIVIDUAL COUNTRIES WILL VARY. POLAND AND ROMANIA, BECAUSE THEY HAVE IMPORTANT NATURAL RESOURCES, WILL LIKELY SUFFER THE LEAST. BUT EAST GERMANY, HUNGARY AND CZECHOSLOVAKIA WILL BE AFFECTED BY THE DETERIORATION IN THEIR TRADE BOTH WITH THE SOVIET UNION AND THE WEST.

AS FOR THE SOVIET UNION, IT'S LESS VULNERABLE THAN ITS EAST EUROPEAN PARTNERS, BUT IT ALSO IS FACED WITH A LARGE AND MOUNTING HARD CURRENCY DEFICIT. THE HUGE ORDERS FOR WESTERN TECHNOLOGY IN 1972 AND 1973 HAD ALREADY CAUSED THAT DEFICIT TO REACH ALMOST TWO THOUSAND MILLION DOLLARS. THE SHARP PRICE INCREASES FOR OIL AND OTHER RAW MATERIALS BY THE END OF 1973 BROUGHT A RESPITE. BUT BY THE END OF 1975 THE SOVIET UNION HAD REACHED A HARD CURRENCY DEFICIT OF ABOUT SEVEN THOUSAND MILLION DOLLARS. THIS WAS CAUSED BY A DECLINE IN WESTERN DEMANDS FOR SOVIET RAW MATERIALS, CONTINUED HIGH WESTERN IMPORTS AT INFLATED PRICES AND RENEWED MAJOR GRAIN PURCHASES IN THE WEST. DESPITE CUTBACKS IN EXPENDITURES AND NON-ESSENTIAL IMPORTS THE SOVIET UNION IS LIKELY TO POST A HUGE

DEFICIT AGAIN IN 1976. HOWEVER, MOSCOW HAS BEEN ABLE TO NEGOTIATE LONG-TERM, LOW-INTEREST CREDITS FROM WESTERN COUNTRIES TO FINANCE IMPORTS ESSENTIAL FOR THE SUCCESS OF ITS NEW FIVE-YEAR PLAN. IF WESTERN IMPORTS AGAIN INCREASE AT THE END OF THE RECESSION AND FUTURE SOVIET GRAIN HARVESTS ARE BETTER, OVERALL SOVIET ECONOMIC GROWTH MAY NOT BE CRUCIALLY AFFECTED.

NEVERTHELESS, RECENT DEVELOPMENTS HAVE SHOWN CONVINCINGLY THAT THE GREATER INVOLVEMENT OF THE SOVIET UNION AND EASTERN EUROPE WITH THE ECONOMY OF THE WEST, WHICH IS IRREPLACABLE FOR RAPID ECONOMIC DEVELOPMENT, ALSO EXACTS ITS PRICE. THE SOVIET UNION, AND TO A MUCH GREATER EXTENT ALL OF EASTERN EUROPE, CANNOT ISOLATE THEMSELVES ANY MORE FROM THE TRENDS IN THE ECONOMY OF THE WEST. IF THE WEST CUTS BACK ON EASTERN IMPORTS AND IF WESTERN GOODS ARE SUBJECT TO INFLATIONARY PRESSURES, THE EAST SUFFERS IN THE FORM OF TRADE DEFICITS, HIGHER DOMESTIC PRICES AND RESTRICTIONS ON THE PACE OF ECONOMIC DEVELOPMENT.

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